Essay:

Cities of money

Author:

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Sydney 2008: To make it to the offices of a project team at Macquarie Capital in Sydney's Martin Place, you must pass a security desk and swipe through a couple of card checks. The security gives rise to expectations about what you might find within, on the 'shopfloor' of Australia's 'millionaires factory'. The offices of Mallesons, Minter Ellison or of any of the city's big legal firms feature corpulent displays of wealth – with million-dollar views and million-dollar fixtures – but here the surprise is the mundanity. Beyond the foyer, a featureless room with neither offices or partitions, just desks and monitors, is home – sometimes fifteen hours a day – to a team of forty or so men and women running the figures on takeover targets. The air is serious but convivial, as though one has stumbled upon guild artisans engaged in a purposeful yet enjoyable craft. The 'cube farm' ennui of Gervais and Merchant's *The Office* and Mike Judge's *Office Space* is unknown here.

The money, at least, makes it easier: it is hard to feel too disaffected as the zeroes are added to your pay cheque. In the 1980s, jailed inside trader Ivan Boesky (read Gordon Gecko) gave the finance industry its much-reproduced credo: 'I think greed is healthy. You can be greedy and still feel good about yourself'; however, something else seems to be happening at Macquarie Group Ltd and at other financial institutions. Although the money is good, and prospectively better, no one in this room is earning the $33 million that group boss Allan Moss pocketed in 2007. Instead, those who make up the mostly young team (the majority are under thirty-five) seem as much driven by a desire to do 'well', even if that is not quite the same as the desire to do 'good'. Everyone wants their projects and their firm to succeed. These people were among the best in their year at universities all over Australia; they outdid two thousand or more applicants for a hundred or so positions. In the same way the British civil service once hoovered up the best Oxbridge graduates to run the Empire, now our most promising graduates flock to finance. This is corporate meritocracy at work, bringing with it a nerdish, nebbish – but not quite geeky – cool and a commitment to hyper-competence. And, while Macquarie looks more vulnerable in the current credit squeeze than it has over the past decade of its massive expansion, our money – or their money – seems to be in sure hands.

Recruitment drives have long been a feature among legal firms, the big four accounting houses (in my day it was the big eight) and elsewhere in the corporate

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sector. Those attending can stare at the brochures or watch a PowerPoint presentation about making PowerPoint presentations for a living, and walk away with a pocket protector full of branded ballpoints. McKinsey Consulting has gone so far as to make a *thing* about hiring Rhodes scholars – although I am not sure how this exotic fact is made known to clients, or what it might be like to work there if you are not part of the Rhodes club. Yet the focus on topflight recruitment for corporate or merchant banking is new for Australia. Retail banking has long been a refuge for the low flying, and to an extent still is. A friend attending a Westpac recruitment day was told he would stand out because they did not get many good people. His ascent, he was assured, would be swift. Moreover, as I informed him, the Westpac uniform – still in its '80s palette of red and grey – had improved much in cut and fabric since then. He declined the bank's offer.

In merchant banking, the climb to the top is more of a struggle – the hatchlings are not likely to perish in the forty-metre dash from the egg to the surf, but Macquarie Bank demands nine to twelve or fifteen hours a day, plus perhaps a day on the weekend, and maybe an all-nighter now and then. And that is just to keep up rather than to get ahead. Unsurprisingly, the culture favours the young. Strangely, they have a low attrition rate: a sense of common purpose seems to bind people into the work and to the company culture. These folk toil and play together – sometimes in the office, sometimes on the harbour. And while Sydney is the head office, after a few years many will follow Macquarie's global tendrils to Dubai, Shanghai, Hong Kong, New York, London, or wherever.

These trajectories into and through finance were not always so obvious. Something happened to finance. While all the major Australian stock exchanges were founded in the latter half of the nineteenth century (Melbourne in 1861, Sydney in 1871, Hobart in 1882, Brisbane in 1884, Adelaide in 1887 and Perth in 1889), in many ways the Australian stock and securities market can be lumped together with the emerging markets of the 1980s. There are some obvious differences between the long-standing Australian markets and those that sprang up in Asia and Latin America with support of the World Bank after 1980. The disastrous Poseidon bubble of 1969–70 had forced a tighter regulatory regime on the Australian market, but many of the fifty or so new exchanges of the 1980s lacked securities regulation. Also, the Australian market had a very good – if conservative – banking regime, whereas domestic banking in many of these new centres suffered from poor oversight.

Despite these differences from the new exchanges, the Australian market grew as they did with the opening up of economies, reduced tariffs and trade barriers, privatisation of state industries and the inflow of foreign capital ($500 million into new exchanges in 1984 to more than $100 billion by the late 1990s). Global capitalism had made its greatest leap forward since the 'Scramble for Africa' in the 1880s. In turn, growing capital markets are viewed as the key to growth in the real economy. Few question the 'goodness' of finance.

Brisbane 1985: Mid-year, even as short-term money market rates hit 18 per cent, the telephones on the cash-trading desk of Potter Partners' Brisbane office would ring only three times a day. At the time, Potter Partners was Australia's largest but most conservative stockbroking house, the life's work of the businessman and benefactor Sir Ian Potter. The blue-chip adviser and trader was based in Melbourne's Collins Street where it represented the big end of town, including mutual antagonists BHP and Robert Holmes à Court. By comparison, the Brisbane office was an outpost at the very frontiers of finance. Tom Wolfe was yet to coin or steal 'masters of the universe' for his 1987 novel *Bonfire of the Vanities*, but we were already familiar with the term 'yuppie'. Moreover, the public had already begun to fear that its fortunes were hostage to the whims of preppy traders armed with a bank of telephone handsets and those now old-school green-screen monitors. Yet in Brisbane, alone at the cash desk, waiting for my three calls, things were less … well, masterful.

I joined the firm – and its local staff of eight – after spending a year at the Stock Exchange as a chalkie. The 'old' Brisbane Exchange was a wood-panelled bunker at 344 Queen Street, next to ANZ, across the way from NAB. The city was yet to turn to the river, and the small business sector was concentrated on Queen Street between Edward and Wharf Streets. Unlike the later Macquarie recruits, I had gotten the job as a chalkie from a Commonwealth Employment Service card of all places. I was successful at the interview after professing my private school credentials and a great love of cricket. While the television footage of the trading floor represents the Exchange as a vibrant place, trade in Brisbane was often slow and usually hostage to movements in Sydney and Melbourne. The only national player in town was the broker Paul 'Porky' Morgan, who represented Christopher Skase and one day hawked the prospectus for Paul Hogan's *Crocodile Dundee* around the floor. It seemed like a bad idea, and nearly everyone said no. Morgan, as underwriter, was forced to take up much of the offer himself – making, as legend tells it, a seven-figure profit.

Chalking was a tricky job. A chalkie needs to learn four things: the three-letter codes for each stock; their positions on the boards; each broker's number; and, eventually, each broker's voice. For the first few weeks, it is a bewildering experience to have the buying and selling prices for hundreds of stocks yelled to you by a room full of operators or traders. If you are lucky, you will catch and record fragments of the trade. Brokers would get exasperated or even angry if their selling price or buying price were marked up incorrectly. Even if you had a good memory, it was easy to be rattled when in busy trade you were trying to mark up a queue of six or eight bids. The highlight was the annual chalkies' weekend, where many of the three dozen or so chalkies nationwide would converge on a single city in order to drink themselves into muted incomprehension.

As well as chalking, I spent time in the marking service where the exchange processed thousands of share trades manually each week: registering and authorising the shift in ownership. A clerical team – Bruce, Margie and the eighty-year-old Mr

Dan – chatted idly as they vigorously stamped transfer form after transfer form, with the steady pace and irresistible momentum that I imagined characterised the Indian civil service. I would spend only an hour or so a day there, as I was also responsible for getting out the share trading information to media outlets. In those days, the reports were done down the phone to the ABC, which would then broadcast the jockey-voiced recordings at the end of the radio news. Then, as now, we would report on the All Ordinaries index (it was mostly going up in the mid-1980s) and the major stocks – David Jones down fifteen, Elders up ten, and so on. Occasionally, for the once-daily recording of all stock movements, I would add in a made-up company or two. I once had to take a call from a flustered investor who wanted to know about Gepp Co – a fabrication named after my university friend Ben Gepp. I chose to lie and deny I ever uttered the name of such a stock.

Eventually, like most chalkies, I found myself bored, struggling on $141 a week, and looking for other work. Like many chalkies, I moved to a broking house. My mother knew Max Butson, the boss of Potter's Brisbane office. He was a wheezing, oversized man, badly affected by wartime malaria. He had a nick in the white of his left eye – like a chip in a ball of marble – and a comically large sneeze that would echo through the office. It was a styling – an enormous guffaw of a sneeze – that I later affected for a time. After my mother's phone call, I found myself on the other side of Mr Butson's desk. He offered me work looking after Potter Partners' cash management trust and helping on the money market desk. Despite already understanding that the Brisbane finance scene was small beer – and nothing like Sydney, let alone New York – I was taken with the thought of being a cash-trading titan with a phone in each fist.

It was a shock, then, that the work was largely clerical. Every morning, I would open the mail in search of cheques for the cash management trust – a high interest-bearing account we operated for investors – before writing up, adding up and reconciling the cheques for deposit. This proved to be maddeningly difficult. Even after a great deal of practice, it is very hard to add hundreds of figures on a calculator accurately, even a big calculator with generous buttons. Nevertheless, I learned obscurely useful things: all the Brisbane postcodes and how bank branch numbers work. As a blue riband broker, many of our clients were what passed for the rich in Brisbane in those days: specialist doctors (who clearly earned more than GPs), solicitors, a small number of private traders and *rentiers* who lived off their investments. I was most struck by Mr Banerjee, a Bengali war veteran who had saved a small fortune from his tiny Indian serviceman's pension. He would come to our office with a pair of cherries looped over one ear, claiming they kept the elephants away. There was, however, only a thin business or commercial class among our client base. The city and the state were yet to be changed by the flows of wealth that followed the relocation of commercial enterprise, the boom in property and the rise in finance.

In theory, the more glamorous part of my job was on the money market desk. A trading desk is just that: a desk with phone on it. I, in fact, had two telephones on which to receive my three calls a day. I suppose there was a chance the calls could come in together. Melbourne, where the real traders worked, would ring first to tell me the interest rate that I could quote to clients who might want to deposit amounts of, say, $1 million overnight. The rate would vary each day within a band of 1 per cent or so. At 18 per cent, $1 million dollars returns about $465 in interest each day. With the rate in hand, I would then ring our two clients: Queensland Treasury and National Australia Bank. They deposited with us what must have been their chump change – say, $2 million from Treasury and $5 million from NAB. I would then ring to organise bearer bonds for those amounts from the Reserve Bank, before going down there to pick them up and deliver them to the client.

As with all financial institutions dealing in large amounts of money, these exchanges were banal, and our demeanour blasé. In theory, bearer bonds – little quarto-sized pieces of translucent green paper – were redeemable by whoever presented them to the Reserve Bank – that is, by whoever was bearing them. One day, out of reckless efficiency, I already had the $40 million in bonds (four $10 million notes) out of my satchel and in my hand as I strode towards the offices of National Australia Bank in Adelaide Street. In an instant, a gust blew them from my grasp and away up the street. I turned the pale green of the bond paper. Eventually, I gathered them, including one from a puddle and one from a kindly soul who did not realise what she was holding.

There was only a small cadre of delivery boys and girls for the different money traders in the city; we would nod to each other at the RBA or when we queued at the Queensland Treasury. There were yet to be many banks here other than the big four and a few specialist outfits like QIDC. Paul Keating floated the dollar and began deregulating the banking system early in the first Hawke government. Yet it was not until after the rise of superannuation-based savings and the collapse of a host of Australian financial houses in the late 1980s and 1990s – the State Bank of Victoria, the State Bank of South Australia, Tricontinental-Rothswell, Estate Mortgage, Pyramid Building Society – that foreign and merchant banks began to crowd into the Australian market. Until then, our over-protected finance system remained as you might expect: indulged, under-performing and peopled with those who – like me – had fallen into it out of other professions or through family connections. Through grace or fortuity, those who stayed became rich.

I left Potter Partners in early 1986, but returned for a summer job in early 1991 while studying arts administration of all things, to find the old firm had changed its name to Potter Warburg. Australia's grandest broker was now, like many, part-owned by an overseas bank. In this case, it was S.G. Warburg, a much-respected success story of the Big Bang reforms in the City of London in the 1980s. Within a year or two, it had changed its name again next to SBC Warburg – a Swiss-British banking hybrid – and all signs of Potter Partners were gone.

London 2008: 'The Gherkin' rises from the city of London like a tycoon's bulging cigar. The 180 metre, forty-storey, purple-green tower – as much a giant Pysanky egg or Faberge phallus as it is a building – announces the rebirth of 'The City' or the 'Square Mile' as the centre of international finance. Designed by Norman Foster (Lord Foster to you), it replaces the much-mourned Baltic Exchange building bombed by the IRA in 1992. In some sense, it also replaces the BT Tower as the symbol of the city. But while in 1965 the then Post Office Tower captured the technocratic fantasies of swinging London – you can see it in *Dr Who, Bedazzled* and later *The Goodies*' 'Kitten Kong' – The Gherkin suggests our immaculate green future. It is naturally heated and cooled and uses light wells to illuminate itself. Coming after half a century of efforts to reproduce every financial district worldwide from the one template, The Gherkin is compelling. We do not have the right words for it; instead, we resort to metaphor: a busting boiler, a tethered zeppelin, a glass sea sponge, the pinecone, the Pyrex dildo, the crystal phallus and so on. Nevertheless, its strangeness allows us suddenly to see London and its financial world anew.

Somehow or other, in the twentieth century Britain was gutted by two world wars and lost an empire, but has emerged again in the twenty-first century as the centre of global finance. New York still has the larger stock exchange, but London leads in banking (with more than 550 banks) in headquarters from the Top 500 companies (twenty-eight, compared with twenty-four in New York and twenty in Paris) and in overall volume on the global financial exchanges (31 per cent compared with 19 per cent in New York). Partly, this is historical. In the late nineteenth century, London was the very powerful hub of the global economy. It was the biggest port, it serviced the largest domestic economy, and it had the largest empire. The world, including Australia, came to London to borrow money, secure debt and trade goods. In the succeeding 100 years, the British domestic economy has shrunk in importance and the spokes extending globally from London have become more important – but still require the hub that London provides all the same. In this role, London has some other slight advantages over its competitors. A recent survey of finance professionals in New York, London, Frankfurt and Paris by the Y/Zen consultancy group had London leading on a cumulative index of fifteen measures, and particularly in relation to the availability of skilled personnel, regulatory environment, access to international markets, access to customers, fair and just business environment, and culture and language. The only major measures where London trailed New York were corporate and personal tax regimes and access to business infrastructure.

By 2000, the wholesale financial services sector provided 350,000 jobs in London, up from 175,000 in 1970. Economist Paul Woolley argues that finance has become the dominant industry sector in the United Kingdom, accounting for between 30 and 40 per cent of the aggregate corporate profits. In a real sense, London's fortunes are hostage to the fortunes of high finance. Historian Niall Ferguson sees these outcomes as evolutionary, following Jean Bapiste de Lamarck's idea that organisms (in this case, financial institutions) morph to the needs of their environment – taking up whatever advantage circumstances offer. It may seem as though London could only have risen again by dint of government planning or through some kind of global financial consensus. In reality, the rise of London is as accidental as was its decline after World War I. Since 1980, it has benefited from a virtuous circle where finance and commerce are drawn there because finance and commerce are already located there.

When, in 1992, Francis Fukuyama was busy announcing the end of history – the ideological arm wrestle of the previous seventy years having been settled in favour of free-market liberal democracy – many economists believed there could now be a similarly straightforward consensus about how to run a modern liberal economy. The formula that central bankers, big business and econocrats had settled on was as simple and comforting as Fukuyama's. What the new global economy required was free trade, new markets, deregulation and a light hand on the tiller of monetary policy, while fiscal policy was to be avoided at all costs. The role of finance in this was particularly important. As the UK Department of International Development recently concluded, 'a large body of evidence now exists which shows that the financial sector can make an important contribution to economic growth and poverty reduction … By increasing the savings rate and the availability of saving for investment, facilitating and encouraging inflows of foreign capital, and optimising the allocation of capital between competing uses, the financial sector development can boost long-run growth through its impact on capital accumulation and the rate of technological progress.'

This is the economics that I learnt at university, wherein the invisible hand best allocates resources – in this case, capital. With the decline in teaching economic history and political economy as companion disciplines to quantitative economics, this is the economics that business schools now propagate unthinkingly.

This unthinking acceptance of the economic and social utility of finance manifests itself both culturally and within the markets themselves. The new success of the city has spawned a British literary hero in the form of Geraint Anderson, author of the bestseller *City Boy: Beer and Loathing in the Square Mile* (Headline, 2008). New York gave us Tom Wolfe's Sherman McCoy (*Bonfire of the Vanities*, Picador, 1989), a man (almost) brought low by his financial vanity and Bret Easton Ellis's Patrick Bateman (*American Psycho*, Picador, 1991), whose murders seem to be connected to his job as a banker. As a former banker, Geraint Anderson provides a more convincing account of the day-to-day of the dealing room and of the coke snorted and the cash blown after hours. While not clearly fiction or non-fiction, Anderson transplants his protagonist, Steve Jones – something of an echo of the lad-lit hero (or maybe just the lad mag hero) of the 1990s – into the city. Part account, part fantasy, and with all social critique suspended for the sake of the jokes, it is despicably funny, but eventually just despicable.

More problematic is the financial markets' unthinking acceptance of their own functionality. Demand and supply set the prices for securities, commodities and money. This allows investors in economic enterprises – in London, Dubai or Shanghai – to access funds at the cheapest, most efficient price. What could be more beautiful? Yet the mantra ignores the regular failures of markets and their costs to their users. As the work of the Paul Woolley Centre for the Study of Capital Market Dysfunction at the London School of Economics underlines, security prices constantly and sometimes catastrophically fluctuate in little relation with the value of the underlying asset. The dot.com bubble is the best recent example, in which the stock prices bore little relationship to the profitability and balance sheet of the traded company. Such fluctuations in price are good for trade. People make money as stocks go up, and the brave (some say the unethical) can also make money by selling short as stocks go down. In some sense, then, trade is just noise; it does not affect or enhance the underlying value of the asset. Heaving trading means profits for brokers as they take their 1 or 2 per cent cut from each transaction. However, heavy trade does not grow the economy. A rising market can leverage the creation of new capital, but a falling one can shrink it – reputedly, world capital has shrunk by $500 billion in the current mortgage-led credit crunch.

Perhaps more problematic still is the way that the finance sector takes its cut out of the real economy. As Paul Woolley states: 'None of us knows how much of our spending goes on financial services. We know how much our mortgage costs but we do not know how much revenue or profit revert to the bank from the mortgage payments. We are not likely to know the management and dealing fees that are embedded in our pension fund … We do not know what banking costs are as a proportion of the input costs for all other goods and services we consume. Maybe we should and then we would realise the full extent to which the finance sector surreptitiously feeds off of the real economy.'

This is capitalism, but I am not sure Adam Smith would wholly approve. We need global finance, but its Darwinian (almost viral) opportunism – and the profound informational asymmetries between the financial sector and the mum and dad investors – mean there is nothing like the well-informed market Adam Smith imagines in *The Wealth of Nations*. The UK government, newly alert to the importance of the financial sector to London and the importance of London economy to the nation (see the *London's Place in the UK Economy* report), is only going to do what it can to further grow the City of Money. Yet good policy and good regulation might consider the costs of always giving the finance sector its head – of always letting bond traders, currency traders, bankers, ratings agencies, hedge fund managers, and refinanciers move money in search of short-run profits without consideration for transaction costs or for underlying economic growth.

Sydney 2008: The new towers of the Sydney financial district are the product of four forces: deregulation and its flows of global capital; the real estate boom early this decade; our forced saving through superannuation; and the privatisation of infrastructure. How the mining boom will yet affect the finance system is not clear. Nor is it clear what will be the next force – positive or negative – to shudder through the system. Back at Macquarie Bank, the chosen are trying to ride the wash of the US sub-prime disaster. Unlike the many dissatisfied denizens of the corporate world – the pinstriped prison as Lisa Pryor calls it in her book of that name (Pan Macmillan, 2008) – they seem to be on top of things. They seem to be doing well; whether they are always doing good is a more complicated question.

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